

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WOOD CREEK WATER	)	
DISTRICT FOR RATE ADJUSTMENT	)	CASE NO.
PURSUANT TO 807 KAR 5:076	)	2015-00428

ORDER

By this Order, the Commission approves an increase to Wood Creek Water District's ("Wood Creek") water service rates and to its sewer service rates. The approved water rates will generate \$815,882 in additional annual revenues, a 17.07 percent increase to pro forma present water rate revenues in the amount of \$4,780,087. The monthly water bill of a typical residential customer<sup>1</sup> will increase from \$33.50 to \$39.21, an increase of \$5.71, or 17.04 percent. The sewer rate increase will generate \$106,360 in additional annual revenues, a 17.07 percent increase to pro forma present sewer rate revenues in the amount of \$623,081. The monthly sewer bill of a typical residential customer will increase from \$35.42 to \$41.46, an increase of \$6.04, or 17.05 percent.

On December 28, 2015, Wood Creek tendered an application ("Application") to the Commission pursuant to 807 KAR 5:076 requesting to increase its water service rates by 14.54 percent. Commission Staff ("Staff") applied methods and practices that are generally accepted by the Commission to review the reasonableness of Wood

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<sup>1</sup> A typical residential customer purchases 4,000 gallons of water per month through a 5/8-inch x 3/4-inch meter.

Creek's current and proposed water service rates as well as Wood Creek's current sewer service rates.

On April 15, 2016, Staff issued a report summarizing its findings. Staff found that Wood Creek's adjusted test-year operations support a 17.07 percent water service rate increase and a 72.18 percent sewer service rate increase. The water and sewer service rates calculated by Staff were presented in Staff's report as Attachment A and Attachment B, respectively.

On April 29, 2016, Wood Creek filed with the Commission its response to Staff's report wherein it requested that the Commission authorize the water service rates calculated by Staff, but not the sewer service rates. Instead of the sewer rates proposed by Staff, Wood Creek requested that the Commission allow it to increase sewer service rates by 17.07 percent in order to generate \$106,360 in additional annual revenues. In its response, Wood Creek included a copy of the revised water and sewer rates for which it sought Commission approval. Wood Creek further waived its right to a hearing.<sup>2</sup>

By Order dated May 10, 2016, the Commission directed Wood Creek to publish in a newspaper of general circulation in its territory notice of the rates that Wood Creek requested in its April 29, 2016 response to Staff's report. Wood Creek caused this notice to be published on May 20, 2016.<sup>3</sup> The notice allowed any person 30 days from the notice's publication date to submit written comments, objections, or requests for

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<sup>2</sup> Letter from Glenn Williams, Chairman, Wood Creek Water District, to Aaron Greenwell, Acting Executive Director, Public Service Commission (Apr. 29, 2016).

<sup>3</sup> Letter from Dewayne Lewis, Office Manager, Wood Creek Water District, to the Executive Director of the Public Service Commission (May 24, 2016).

intervention or a hearing. Having received no comments, objections, or requests, the Commission finds that good cause exists for the case to be submitted on the record.

Having considered the evidence and being otherwise sufficiently advised, the Commission finds that:

1. Wood Creek is a water district organized pursuant to KRS Chapter 74, and owns and operates water treatment and distribution facilities (“Water Division”) that serve water to approximately 5,231 customers in Laurel County, Kentucky,<sup>4</sup> and wholesale water service to East Laurel Water District, West Laurel Water Association, and the city of Livingston. It also owns and operates a sewer collection system (“Wastewater Division”) that it uses to collect wastewater from approximately 1,235 customers.<sup>5</sup> The wastewater is transported for treatment to the city of London.

2. The calendar year ended December 31, 2014, should be used as the test period to determine the reasonableness of Wood Creek’s water service rates and sewer service rates.

3. Based upon pro forma test-year operations, after adjusting for known and measurable changes, the Water Division’s pro forma present rate revenues and total pro forma operating expenses are \$4,935,835<sup>6</sup> and \$4,464,383,<sup>7</sup> respectively.

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<sup>4</sup> *Annual Report of Wood Creek Water District [Water Division] to the Public Service Commission for the Calendar Year Ended December 31, 2014* (“Water Annual Report”) at 12 and 53.

<sup>5</sup> *Annual Report of Wood Creek Water District Wastewater Division to the Public Service Commission for the Calendar Year Ended December 31, 2014* (“Sewer Annual Report”) at 25.

<sup>6</sup> Staff Report at 11. \$4,780,087 (Revenue from Water Sales) + \$154,147 (Other Water Revenues) + \$1,601 (Interest and Dividend Income) = \$4,935,835.

<sup>7</sup> *Id.*

4. Wood Creek has two outstanding bond issuances that are payable to the United States Department of Agriculture Rural Development (“RD”); three outstanding bond issuances that are payable to the Kentucky Rural Water Finance Corporation (“KRWFC”); and an outstanding loan that is payable to the Bank of New York (“BNY”). Each of these evidences of indebtedness was used to either construct water system improvements or to refinance other debt instruments that had been assumed to finance construction of water system assets. Each debt should be repaid from revenues generated by the Water Division’s service rates. The five-year average annual principle and interest payment on all debts for the years 2016 through 2020 is \$1,096,542.<sup>8</sup>

5. On December 17, 2014, Wood Creek requested authority to borrow \$1,633,500 from KRWFC to refinance certain outstanding RD bonds. By Order entered on January 5, 2015, in Case No. 2014-00440,<sup>9</sup> the Commission approved Wood Creek’s request. Subsequently, Wood Creek filed documents showing that it had actually borrowed \$2,780,000 from KRWFC and had refinanced more RD bonds than had been authorized by the Commission. In the near future, the Commission will initiate a new proceeding to more thoroughly investigate Wood Creek for issuing indebtedness without prior Commission approval.

6. The Commission has historically used a Debt Service Coverage (“DSC”) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt.

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<sup>8</sup> *Id.* at 39–44.

<sup>9</sup> Case No. 2014-00440, *Application of Wood Creek Water District to Issue Securities in the Approximate Principal Amount of \$1,485,000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Jan. 5, 2015).

7. Application of the Commission's DSC method to the Water Division's pro forma operations results in an Overall Revenue Requirement in the amount of \$5,751,717. A revenue increase of \$815,882 from water service rates is necessary to generate the overall revenue requirement.<sup>10</sup>

8. The water service rates calculated by Staff, and subsequently requested by Wood Creek in its April 29, 2016 response to Staff's report, evenly distributes the water revenue increase to all of Wood Creek's water customers. An even distribution of the water revenue increase is appropriate, absent evidence to the contrary.

9. Based upon pro forma test-year operations, after adjusting for known and measurable changes, the Wastewater Division's pro forma present rate revenues and total pro forma operating expenses are \$623,112<sup>11</sup> and \$954,047,<sup>12</sup> respectively.

10. Wood Creek currently has no long-term evidences of indebtedness that were used to fund the construction or purchase of sewer assets. There being no long-term debt attributable to sewer operations, the Wastewater Division's Overall Revenue Requirement may be determined using the Operating Ratio Method as generally accepted and applied by the Commission.

11. Application of the Commission's Operating Ratio Method to the Wastewater Division's pro forma operations results in an Overall Revenue Requirement

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<sup>10</sup> *Id.* at 37–46.

<sup>11</sup> Staff Report at 12. \$623,081 (Sewer Service Revenues) + \$31 (Interest and Dividend Income) = \$623,112.

<sup>12</sup> *Id.*

in the amount of \$1,084,145. A \$449,743 revenue increase from sewer service rates is necessary to generate the Overall Revenue Requirement.<sup>13</sup>

12. The sewer service rates requested by Wood Creek in its April 29, 2016 response to Staff's report will not produce \$449,743 in additional annual revenues. They will produce \$106,360 in additional annual revenues, which is sufficient for the Wastewater Division to recover its cash related operating expenses and to fund 32 percent of its annual pro forma depreciation expense.<sup>14</sup>

13. The record contains no evidence that permitting Wood Creek to assess the requested sewer service rates will result in any degradation or reduction in the quality of sewer service currently provided by Wood Creek.

14. A utility may assess rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as sufficient or adequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of

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<sup>13</sup> *Id.* at 47.

<sup>14</sup>

Total Revenues After Accounting for Requested Sewer Rate Increase	\$ 752,052
Less: Operation and Maintenance Expenses	(655,670)
Taxes Other Than Income	<u>(844)</u>
Amount of Revenues that Exceed Cash Related Expenses	95,538
Divide by: Pro Forma Depreciation Expense	<u>297,533</u>
Percent of Depreciation Expense Funded Through Rates	<u>32%</u>

this level of revenue, the sewer services rates requested by Wood Creek should be approved by the Commission.<sup>15</sup>

15. During the test year, Wood Creek used service lives to depreciate certain water assets that are at variance<sup>16</sup> with those found in a survey of the National Association of Regulatory Utility Commissioners (“NARUC Survey”) that contain “a range of average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice.”<sup>17</sup>

16. The Commission has previously used the NARUC Survey to establish the service lives of water assets when there is no evidence in the record to support alternative lives.<sup>18</sup>

17. The record contains no evidence that the service lives that Wood Creek uses for water assets should be at variance with the NARUC Survey.

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<sup>15</sup> *Utilities Operating Co. v King*, 143 So.2d 854, 45 PUR3d 439, 443 (Fla. 1962) (“[I]n the absence of some showing that the service to the public will suffer by allowing the utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission.”). See also Case No. 2006-00410, *The Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective on and after December 2, 2006* (Ky. PSC Aug. 2, 2007); and Case No. 98-398, *Adjustment of Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

<sup>16</sup> Staff Report, Attachment B.

<sup>17</sup> National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

<sup>18</sup> Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007); and Case No. 2012-00278, *Application of Graves County Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Sept. 5, 2012).

18. Wood Creek's assignment of service lives for the water asset groups identified in Appendix C of this Order should be revised to conform to the NARUC Survey for ratemaking and accounting purposes in all future reporting periods.

19. In Case No. 2013-00170, the Commission ordered Wood Creek to adjust the depreciable lives that Wood Creek had assigned to certain sewer assets for accounting and ratemaking purposes.<sup>19</sup>

20. In this proceeding, Staff found that Wood Creek has not adjusted the depreciable lives assigned to sewer assets as previously ordered by the Commission.

21. For accounting purposes in all future reporting periods, Wood Creek should revise the service lives assigned to the sewer asset groups identified in Appendix C of this Order as previously ordered by the Commission.

IT IS THEREFORE ORDERED that:

1. The water rates requested by Wood Creek in the Application are denied.
2. The monthly water and sewer service rates requested by Wood Creek in its April 29, 2016 response to Staff's report are approved.
3. Wood Creek shall charge the water rates that are set forth in Appendix A for water service rendered on and after the date of this Order.
4. Wood Creek shall charge the sewer rates that are set forth in Appendix B for sewer service rendered on and after the date of this Order.
5. Wood Creek shall use the "PSC Approved Service Life" set forth in Appendix C to depreciate water and sewer assets for ratemaking and accounting

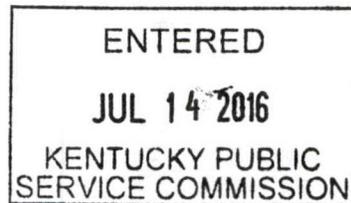
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<sup>19</sup> Case No. 2013-00170, *Alternative Rate Adjustment Filing of Wood Creek Water District* (Ky. PSC Nov. 12, 2013), Final Order at 7.

purposes. No adjustment shall be made to accumulated depreciation or retained earnings to account for this change in accounting estimate.

6. Within 20 days of the date of this Order, Wood Creek shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the rates approved herein.

By the Commission



ATTEST:

  
Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00428 DATED **JUL 14 2016**

The following water service rates and charges are prescribed for the water customers in the area served by Wood Creek Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

#### Monthly Water Rates

##### 5/8- x 3/4-Inch Meter

First	2,000 gallons	\$ 24.22	Minimum bill
Next	1,500 gallons	7.70	per 1,000 gallons
Next	1,500 gallons	6.87	per 1,000 gallons
Next	2,500 gallons	5.78	per 1,000 gallons
All Over	7,500 gallons	4.57	per 1,000 gallons

##### 1-Inch Meter

First	5,000 gallons	\$ 46.08	Minimum bill
Next	2,500 gallons	5.78	per 1,000 gallons
All Over	7,500 gallons	4.57	per 1,000 gallons

##### 1 1/2-Inch Meter

First	10,000 gallons	\$ 71.95	Minimum bill
All Over	10,000 gallons	4.57	per 1,000 gallons

##### 2-Inch Meter

First	20,000 gallons	\$ 117.65	Minimum bill
All Over	20,000 gallons	4.57	per 1,000 gallons

##### 3-Inch Meter

First	30,000 gallons	\$ 163.35	Minimum bill
All Over	30,000 gallons	4.57	per 1,000 gallons

##### 6-Inch Meter

First	100,000 gallons	\$ 483.25	Minimum Bill
All Over	100,000 gallons	4.57	per 1,000 gallon

Wholesale User Rates

East Laurel Water District

\$ 3.42 per 1,000 gallons

West Laurel Water Association

\$ 3.42 per 1,000 gallons

City Of Livingston

\$ 3.42 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2015-00428 DATED **JUL 14 2016**

The following sewer service rates and charges are prescribed for the sewer customers in the area served by Wood Creek Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Sewer Rates

5/8- x 3/4-Inch Meter

First	2,000 gallons	\$ 24.22 Minimum bill
Next	1,500 gallons	8.78 per 1,000 gallons
Next	1,500 gallons	8.14 per 1,000 gallons
Next	2,500 gallons	7.29 per 1,000 gallons
All Over	7,500 gallons	6.36 per 1,000 gallons

1-Inch Meter

First	5,000 gallons	\$ 49.60 Minimum bill
Next	2,500 gallons	7.29 per 1,000 gallons
All Over	7,500 gallons	6.36 per 1,000 gallons

2-Inch Meter

First	20,000 gallons	\$ 147.30 Minimum bill
All Over	20,000 gallons	6.36 per 1,000 gallons

3-Inch Meter

First	30,000 gallons	\$ 210.87 Minimum bill
All Over	30,000 gallons	6.36 per 1,000 gallons

6-Inch Meter

First	100,000 gallons	\$ 655.85 Minimum Bill
All Over	100,000 gallons	6.36 per 1,000 gallons

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2015-00428 DATED **JUL 14 2016**

Modifications to Service Lives of Certain  
Assets of Wood Creek Water District

<u>Water Asset Group</u>	<u>Water Assets</u> <u>Asset Item No.</u>	<u>Used by</u> <u>Wood Creek</u>	<u>PSC</u> <u>Approved</u>
Structures and Improvements	243, 434, 472, 473, 264, 8, 9, 439, 440, 441, 501, 568, 438, 479	20	35
Structures and Improvements	4, 402-410, 497, 500, 247- 255, 451, 1, 2, 5, 7, 443	50	40
Pumping Equipment	511	7	20
Water Treatment Equipment	481, 428, 430-433, 502	50	35
Transmission and Distribution Mains	512, 339-351, 483, 504, 513, 570, 580	20	50
Services	373-383, 455, 484, 505, 514, 571, 581	20	35
Hydrants	396-401, 454, 485, 506, 515, 582, 610	20	40
Office Furniture and Equipment	435, 436, 486, 487, 507, 516, 572, 583, 611	10	20
Transportation Equipment	585-587, 612	4	7
Tools, Shop, and Garage Equipment	222, 174, 446, 447, 492, 493, 595, 444, 445, 494, 496, 508, 220, 223	7, 10	15
Tools, Shop, and Garage Equipment	424, 429	25	20

Sewer Assets

<u>Sewer Asset Group</u>	<u>Asset Item No.</u>	<u>Used by Wood Creek</u>	<u>PSC Approved</u>
Pumps	544	7	35
Service Lines	548, 26, 264	40	10
Services	591	20	10
Electric Pumping Structure	577	20	35
Electric Pumping Equipment	592	20	7

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